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S E C R E T SECTION 01 OF 03 WARSAW 004075

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TAGS: EAID ECON MARR PGOV PREL IZ PL
SUBJECT: POLAND: THE IRAQI AIR FORCE MEETS WITH BUMAR, BOTH
SIDES AGREE TO CANCEL HELICOPTER DEAL

REF: A. WARSAW 03517

1B. WARSAW 3728

Classified By: Acting Economic Counselor David Birdsey, reasons 1.5 b a
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Summary

11. (S) On 14 December 2005 Econoff and ODC Warsaw personnel met with Iraqi Air Force generals and then observed a meeting hosted by Bumar and attended by five Iraqi Air Force generals. The participants discussed, sometimes heatedly, the 36 helicopters covered in Bumar's multifaceted contract to deliver goods to the Iraqi military. The Iraqi side argued that the original contract was signed illegally by men now wanted for crimes in Iraq. Bumar countered by stating that the contract had valid Iraqi MOD stamps and signatures on it, and is a legally binding document. After hammering this point for over an hour, Bumar stated that the 24 used MI-17 (of which, it said, seven are ready for delivery) and the two new Sokol (Falcon) helicopters could be sold to other parties and the sales proceeds channeled into new helicopters or equipment. The Iraqi side embraced this idea and tentatively agreed to keep the eight of 10 "new" MI-17 helicopters (the two rejected Mi-17 are actually slightly used. Bumar representatives and the Iraqi delegation travelled to Russia on 15 December 2005 to inspect the existing 8 new MI-17 helicopters awaiting delivery to Iraq. No financial details were settled. End Summary.

Background

12. (S) Bumar is indirectly under contract to supply the Iraqi military with a wide array of military items. Among these are 36 helicopters, 10 of which are new MI-17s (Soviet), two new Sokols (Polish), and 24 used MI-17s. The contractual relationship is as follows: Spark (Russian supplier) to Bumar to Al-Ain Al-Jaria (The Flowing Eye, a Baghdad based intermediary) to the Iraqi MOD. The Iraqi delegation, led by Air Force General Kamal Abdul Sattar Barzanji, stated during a pre-meeting breakfast with Emboffs and Multi-National Security Transition Command-Iraq (MNSTCI) contractor that they had no idea why The Flowing Eye was ever involved in the contracting process, and resented the fact that their Air Force had to work through two intermediate entities. General Kamal reminisced about buying military hardware directly from the Chinese, the Soviets, and the French, and the fact that this contract was not a direct supplier to end-user arrangement was clearly a sore point for him. Kamal stated that the 24 used MI-17 were produced between 1978 and 1982, and that the normal lifespan of this model is 20 years, making these units obsolete. Bumar countered that the Polish military in Iraq uses MI-17s that over 35 years old. Embassy ODC staff later commented that both sides' points could be correct, depending on how carefully the MI-17s had been maintained. Kamal then asked rhetorically why the Russians had decommissioned the helicopters, and also lamented the fact that the MI-17s in question are civilian aircraft. The goal of this visit, they confirmed, was to alter the terms of the present contract, and to jettison the 24 used MI-17s from the deal.

"Papers Can Be Changed..."

13. (S) A back and forth exchange constituted much of the meeting between Bumar and the Iraqis, with Gen Kamal stressing the uselessness of the 24 used MI-17s to the Iraqi Air Force, stating that the original contract was signed by wanted men, and contrasting the ephemeral nature of paper, but the permanence of friendships ("We will always talk as friends"). Bumar focused on the existence of the contract, its legality, and the fact that it had been written according to Iraqi supplied specifications. To stress this point,

Bumar President Roman Baczyński waved and distributed copies of the contract's signature page. When the Iraqis asked to see the specifications for the helicopters, Baczyński replied that he could not show them this addendum to the contract, as it was privileged information between Bumar and The Flowing Eye - Gen Kamal would have to secure permission from the latter before Bumar would disclose the specification information. Baczyński also reminded Kamal that they had talked about the helicopters before, a statement that did not jibe with Kamal's earlier assertion that the Air Force had never been consulted on the deal. Emboffs can neither confirm nor deny either statement.

...And Will Be

14. (S) At a certain point in the discussion, Baczyński made an offer: Bumar will sell the 24 used MI-17s, return the money to The Flowing Eye, and each side could start over on this portion of the contract. The same offer was later made concerning the two new Sokol helicopters. The Iraqis jumped at the chance. Baczyński insisted on a signed and stamped letter from the Iraqi MOD asking for nullification of this part of the contract. Kamal stated he had signing authority and the letters would be drafted at the Embassy of Iraq, Warsaw. Talks then moved to the 10 new MI-17s. Kamal said the Iraqis would accept these, but only with the addition of underside armor plating, machine gun mounts, defense systems, and perhaps machine guns (this last point was not clear during the meeting). Baczyński said this could be done, but that it would cost additional money. He also requested official documentation supporting Kamal's decision. The Iraqi Air Force's rejection of the 24 used and two new Sokol helicopters, pending official Iraqi MOD documents, and barring any unforeseen change of heart, appears now to be a fait accompli. The money that is recovered from the cancellation will be committed to the modifications on the new MI-17s described above, and also toward the purchase of additional new MI-17s.

15. (S) The discussions continued for an additional four hours, with much bickering about whether or not to travel to Russia (the delegation did make the trip December 15). Bumar also allegedly tried to pressure the Iraqis into signing documents on the MI-17 modifications, but Gen Kamal declined. In short, the entire Bumar-Iraqi Air Force group travelled to Russia to inspect the 10 MI-17 without any additional documentation being prepared or signed.

More Questions

16. (S) There are still two looming questions that prevent post from considering these developments as a step forward. First, no concrete statements, nevermind documents, emerged on the issue of penalties. Bumar stated that there will certainly be monetary penalties connected to the cancellation of the Sokols, that Bumar simply could not sustain a loss on them. However, no potential amounts were discussed. The picture was even less clear concerning the used MI-17s. Baczyński said he would need to discuss this and refer to the full-length contract, though at one point a zero penalty was discussed. In any case, no firm dollar amounts were discussed for any potential penalties.

The Damage Done

17. (S) The GOP remains concerned about the lingering damage to Bumar, and by association, to the GOP's own reputation. A member of the Iraqi delegation noted that the helicopter "scandal" and Poland have become synonymous in the Iraqi media and among the general public. He doubted that Bumar, or any other Polish company, would find success on future defense contracts (something mentioned to Econoff at a previous visit to the Embassy of Iraq in Warsaw). This reputational damage is in no uncertain terms linked to Ziad Cattan, integrally involved in the original Bumar contract, whereabouts currently unknown, but rumored to be hiding in Poland. Though the Iraqi delegation never mentioned Cattan by name at Bumar, they clearly referenced him several times, and seemed to equate the Bumar contract with him to a large extent.

18. (S) Comment: The fact that Bumar's Baczyński was willing and able to switch negotiating tracks so quickly during the negotiations to offer the Iraqis a way to jettison the unwanted helicopters leads Embassy to believe that Bumar has gamed this scenario out and determined that there are potentially greater profits in allowing the Iraqi side to alter the contract. Post will continue to follow developments on the contract cancellation, and would appreciate reporting from Baghdad on the Iraqi's perceptions of the negotiations and steps forward.

HILLAS